



August 9, 2018

STRICTLY PRIVATE AND CONFIDENTIAL

Mr. Jim Moloney
Managing Director
Cain Brothers
601 California Street, Suite 1505
San Francisco, CA 94108

Re: Project Phoenix – Indication of Interest

Dear Mr. Moloney:

On behalf of CHA Health Systems, Inc. (together with its affiliates, “CHA Health Systems”, “we”, “us” or “our”), we would like to thank you and Verity Health System (“Verity”) for providing us with the opportunity to participate in the Project Phoenix process (the “Proposed Transaction”). We are pleased to submit this non-binding indication of interest (the “Preliminary Proposal”) to acquire the assets of Verity that are associated with and/or used in the operations of St. Vincent Medical Center, and other businesses and services related to the hospital (collectively, “SVMC”).

CHA Health Systems is a diversified health system based in Los Angeles, California. We have a 14-year track record as an owner and operator of acute care provider assets in the U.S., including Hollywood Presbyterian Medical Center (“HPMC”). CHA Health Systems is a member of CHA Group, one of Korea’s leading healthcare groups with a 50+ year history as hospital operators. As part of CHA Group, our vision is to build a sustainable global healthcare services platform. We believe SVMC would complement CHA Group’s sixteen healthcare facilities in Korea, the U.S. and Japan, which include general acute care hospitals, specialty hospitals and clinics.

HPMC is the largest privately-owned, for-profit hospital in Los Angeles County with 434 licensed acute beds, and more than 13,000 inpatient admissions and 49,000 outpatient visits per annum. It is located on North Vermont Avenue at the heart of Los Angeles’s medical corridor and is in near proximity to Koreatown and Hollywood. As a large community hospital serving a significant population of uninsured and under-privileged patients over the past 95 years, HPMC provides essential healthcare services to over 40 ethnic groups in its service area and operates one of Los Angeles’s busiest emergency rooms with more than 31,500 visits per annum. HPMC also operates an intensive care unit, a telemetry unit, an acute rehabilitation unit, an 89-bed skilled nursing unit, 8 surgical operating rooms, and is affiliated with Children’s Hospital Los Angeles. In addition, HPMC has specialized centers for maternal and fetal health, cardiac care and spine treatment, and provides one of the largest maternity services in Southern California with 3,700 deliveries per annum. HPMC currently has more than 500 physicians on staff in 69 specialties and over 1,300 employees.

Our Preliminary Proposal includes the following principal terms and conditions:



Form of Transaction and Sources of Financing

We envisage that CHA Health Systems would serve as the acquiring entity of SVMC. Based upon our preliminary study and subject to our completion of a customary due diligence investigation, our preliminary indicative transaction value is \$63MM on a cash-free, debt-free basis, less the estimated seismic retrofit costs of \$33MM, which provides a net consideration value of \$30MM (the “Purchase Price”), for the following assets of SVMC: all land and buildings of the hospital and its associated medical office buildings and other non-hospital ancillary properties, any construction in progress and all trademarks and tradenames, furniture, furnishings, equipment, information systems and inventory. The Purchase Price would be payable in cash at closing with existing cash on hand.

Operations, Collective Bargaining Agreements and Hospital Executive Leadership

HPMC and SVMC share many commonalities: (i) both hospitals serve substantially the same primary service area with patients from similar socio-economic and ethnic backgrounds; (ii) many of our primary care physicians and specialists are credentialed and active at both hospitals; (iii) both hospitals face similar market challenges, many of which have contributed to SVMC’s declining financial condition; and (iv) both hospitals require significant capital investment for seismic compliance. Given the depth of our understanding of these issues and the local healthcare environment, we believe that CHA Health Systems is uniquely positioned to preserve SVMC as a viable provider of important health services to the community.

Based on our preliminary business plan, SVMC would continue to operate as a general acute care hospital. Our business plan would initially focus on a single-license hospital strategy whereby the acute care hospital license of SVMC would be combined under HPMC’s hospital license. Under a single-license, we believe that there is a significant opportunity to maximize operating synergies between the two hospitals, which may include the following:

- (i) Integrate administrative functions (e.g., C-suite, billing services, medical records, human resources, payroll, employee benefits and salary structure, purchasing services) between the two facilities;
- (ii) Centralize shared services (e.g., IT, marketing, contracting, central business office) into a new management structure;
- (iii) Consolidate and reorganize service lines, thereby optimizing staffing and productivity at each facility, including possibly repurposing of licensed beds;
- (iv) Combine medical staff, which would create stronger alignment and referral networks with community physicians; and
- (v) Renegotiate managed care contracts and enter into dual-risk capitated risk pool arrangements with independent physician associations and medical groups.

SVMC relies heavily on a Medicare fee-for-service payer mix. However, as operating costs continue to escalate while Medicare reimbursement remains relatively flat, SVMC will likely face an uncertain

future if it continues with business as usual. Fiscal pressures will further exacerbate as value-based initiatives and the transition from Medicare fee-for-service to Medicare Advantage continues to shift patient care toward an outpatient setting. We believe that unlocking these potential operating synergies will be critical to SVMC's survival and future success.

In the next round, we will need to conduct further due diligence in order to properly assess the practicable feasibility of a single-license hospital strategy. However, our core business assumption is that SVMC's cost structure will need to be rebased to achieve industry norms for community-based hospitals through (a) a labor reorganization and staffing plan that will reduce labor utilization through implementation of recognized and broadly used productivity standards and (b) reduction of supply costs and purchased services through the enhancement of supply chain management.

We would also be open to a potential joint venture or other strategic partnership with the current management of Verity with respect to the acquisition of SVMC and the development of a new outpatient oncology specialty center.

Post-Retirement Obligations

Under our Preliminary Proposal, all post-retirement obligations, including the multi-employer and single-employer pension plans, will remain with Verity after the closing.

Required Approvals/Material Conditions

CHA Health Systems is a subsidiary of CHA Healthcare Co., Ltd., a Korean limited company. We report regularly to our senior executive management team in Korea, and the status of Project Phoenix will be discussed with, and reviewed by, our key decision makers on a near weekly basis. We have received all internal approvals to submit this Preliminary Proposal to you and can undertake an expedient deliberation and approval process prior to the execution of a definitive agreement.

Due Diligence

Our due diligence requirements will be customary for a transaction of this nature and will generally focus on legal, financial/accounting/tax, operational and regulatory topics.¹ We would also expect reasonable access to Verity and SVMC's management as may be necessary to better understand the business. We believe that our overall due diligence needs will be easily addressable given our prior experience and industry knowledge, and we will work with you to ensure minimal disruption to the hospital's operations.

Contingencies

A closing of the Proposed Transaction would be subject to customary regulatory approvals, and we will endeavor to expedite internal reviews and approvals. In addition, based on our intention to pursue a single-license hospital strategy, we believe that certain of the conditions (each, a "Condition") set forth in the letter, dated December 3, 2015, from the Attorney General of the State

¹ A sample due diligence request list has been attached for your consideration.

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of California will need to be substantially modified or amended prior to or at closing in order to permit us to execute on this plan, the magnitude and scope of which will be determined during the next round. These conditions include Condition IV, Condition VI and Condition XIV.

Key Contacts

The principal contacts in relation to this Preliminary Proposal, together with their contact details, are set forth below.

Mr. Peter S. Park

Vice President, Corporate Development & Strategic Alliances

CHA Health Systems, Inc.

Phone: (213) 487-3211

Mobile: (650) 714-7226

Email: ppark@chahealthsystems.com

Ms. Angelie Gaweco

Chief Financial Officer

CHA Hollywood Presbyterian Medical Center

Phone: (323) 644-5804

Mobile: (818) 282-0780

Email: angelie.gaweco@hpmc.com

We have a shortlist of external professional advisors (legal, financial, operational, regulatory), who have extensively worked with us in other transactions and can be mobilized quickly as necessary in the next stage. We will update you with a list of the key contact persons and engaged vendors as soon as the review process begins.

Additional Information

The provisions of this letter include a proposal for discussion purposes only and does not constitute a formal offer or agreement legally binding on any party, CHA Health Systems or Verity. No party shall be bound or under a legal obligation to proceed with the Proposed Transaction described herein until such time as the appropriate final written definitive agreements have been prepared by legal counsel, approved by the parties and executed by duly authorized officers of the parties (the “Definitive Agreements”). This letter shall not be construed in any way as being an agreement which may be specifically enforced, and the failure of any party to enter into any proposed Definitive Agreements shall not constitute the basis of any claim, cause of action, remedy, damage or equitable relief against such party based upon any theory of liability, including, but not limited to, breach of contract, breach of quasi-contract, tort or reliance.

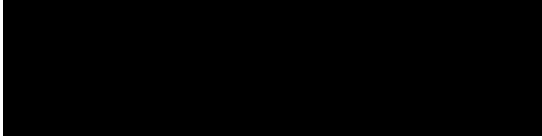
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We look forward to hearing from you.

Very truly yours,



Peter S. Park

Vice President, Corporate Development & Strategic Alliances